

APPENDIX V

Chapter 3

A Layman's Introduction to the Kentucky Higher Education Funding Formula

Kentucky utilizes a shared approach to recommending funding levels for higher education. The universities and the Council on Higher Education (CHE) identify funding needs and submit those needs to the Governor and General Assembly in a series of funding recommendations. From these recommendations, the Governor prepares a higher education recommendation for inclusion in the Executive Budget presentation. The General Assembly appropriates dollars directly to the universities. The universities independently establish operating budgets to expend dollars appropriated.

Since 1982, the universities and the CHE have employed a formula to identify the universities' and community colleges' funding needs. Full funding (100 percent) of the formula is defined as achieving the mid-range levels of funding for higher education generated by numbers used in states around us. The formula has been funded at a high of 88 percent (1987/88) and at a low of 72 percent (1993/94).

This approach to identifying universities' and community colleges' funding needs is called a "formula" because it is composed of a series of calculations. These calculations are based on how similar activities are funded in surrounding states.

The Kentucky formula is designed to be as universal as possible. The universality is achieved by calculating levels of state support for all activities possible. As a result, there are very few funded activities that are not calculated. The formula, however, does not generate funds to cover activities such as housing and dining operations, nor does it account for all sources of funds available to the institutions (e.g., federal funds).

The Kentucky formula is designed as a series of agreed-to calculations and funding levels for various activities. For example, different types of instruction (engineering vs. liberal arts) generate different dollar amounts per credit hour. A series of differentiated activities is quantified, and support for these activities is calculated and added to reach a level of "need" for each university and the community college system. These "bottom lines" are added to generate higher education's total funding need for any one fiscal year. From that total, degree credit tuition revenue is subtracted to generate the total need for state funds.

A formula goal is to treat all institutions alike in the generation of an institution's bottom line. There is no funding of distinctive missions, except through formula application to institutional activities, which differ from institution to institution.

The formula does not identify or fund performance, it does not include inherent recognition of mission differences, and it does not relate to operating budgets. The largest generator of need in the formula is student enrollment, although the more

comprehensive an institution, the more other activities (sponsored research, for example) are recognized and recommended for funding. Simply stated, community colleges, the least comprehensive institutions, generate most of their funding needs through enrollments. Conversely, the University of Kentucky generates funding needs from the largest number of formula components, with student enrollments being one of many factors.

The formula has been criticized as being too complicated. Conceptually, it is rather straight-forward. However, it becomes complicated when the myriad of calculations, rates, and applications are encountered. It takes in depth knowledge of the formula's components and their applications to understand its impact on each institution.

Southern Regional Education Board

The Southern Regional Education Board (SREB) was created in 1948 as the nation's first interstate compact for education. SREB helps government and education leaders to advance education and improve the social and economic life of the region by stressing the linkages between colleges and schools to improve educational quality and opportunity. SREB's fifteen member states are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

SREB is governed by a board consisting of the Governor of each member state and four other individuals from the state, at least one of whom must be a state legislator, and at least one an educator. All appointments are made by the Governor for four-year staggered terms.

SREB is supported by appropriations from member states and by funds from private entities, foundations, and state and federal agencies.

SREB maintains data bases for both higher education and K-12 education and publishes about 40 reports and studies annually. Among SREB's many publications are the SREB Fact Book on Higher Education, Educational Benchmarks, and reports on vocational education and technology for colleges and schools.

SREB's offices are located in Atlanta, Georgia.

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**1995-96 SREB State Data Exchange
State and Local General Operating Appropriations
Per Full-time Equivalent (FTE) Student**

<u>SREB Category</u>	<u>State Appropriation per FTE</u>	<u>Adjustment to SREB Median</u>
KY: Four Year I	4,469	
SREB Median	5,835	25,469,000
KY: Four Year II	5,156	
SREB Median	5,325	2,400,000
KY: Four Year III	3,992	
SREB Median	4,144	8,806,000
KY: Four Year IV	3,895	
SREB Median	3,655	N/A
KY: Four Year V	2,823	
SREB Median	3,943	10,071,000
KY: Four Year VI	7,587	
SREB Median	3,761	N/A
KY: Two-Year I	2,319	
SREB Median	3,418	30,743,000
TOTAL*		77,489,000

* Additional funding required for each Kentucky entity to reach the median funding level of its SREB comparison category.

**1995-96 SREB State Data Exchange
State and Local General Operating Appropriations
Per Full-time Equivalent (FTE) Student**

<u>SREB Category</u>	<u>State Appropriation per FTE</u>	<u>Adjustment to SREB Highest</u>
KY: Four Year I	4,469	
SREB Highest	9,152	87,315,000
KY: Four Year II	5,156	
SREB Highest	6,791	23,215,000
KY: Four Year III	3,992	
SREB Highest	5,574	52,562,000
KY: Four Year IV	3,895	
SREB Highest	5,915	14,885,000
KY: Four Year V	2,823	
SREB Highest	7,379	40,968,000
KY: Four Year VI	7,587	
SREB Highest	7,503	N/A
KY: Two-Year I	2,319	
SREB Highest	5,855	98,916,000
TOTAL*		317,861,000

* Additional funding required for each Kentucky entity to reach the highest funding level of its SREB comparison category.